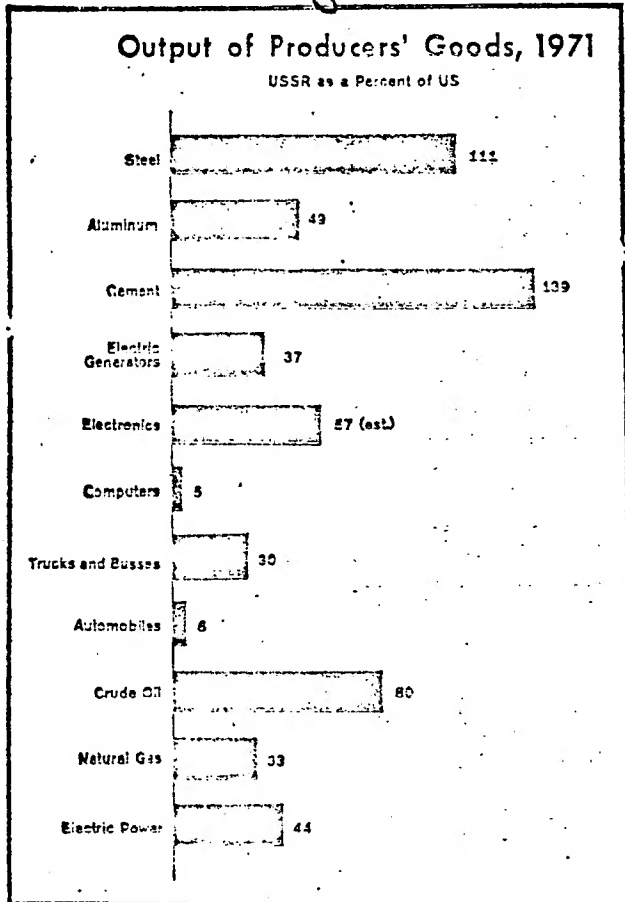


ATTACHMENT B

The Washington Post
Times Herald

AUG 15 1972

Post - page D-6



Commerce Department

ECONOMIES COMPARED — Percentages above are estimates, rather than exact measurements, used yesterday by Secretary Peterson in report on Soviet economy. Though outproducing the U.S. in steel and cement, the U.S.S.R. is behind in modern-technology items.

Peterson Sees Promise In Projects With Russia

Associated Press

Commerce Secretary Peter G. Peterson said yesterday he sees great promise in joint U.S.-Soviet projects to develop Russia's vast raw materials and energy resources with American loans once a trade agreement is signed.

These joint ventures to extract gas, oil, platinum, timber and other resources could be potentially the single most important product of the trade pact currently being negotiated, Peterson said in a report on the talks.

Peterson, American chairman of the joint trade commission working on agreement, said that many difficult issues remain to be settled. But he sounded gener-

ally optimistic on progress of the negotiations.

A comprehensive trade agreement would be advantageous to both economies, he said, the Soviet Union receiving U.S. high-technology goods and know-how and with the U.S. garnering a favorable trade balance and receiving access to Soviet raw materials.

The secretary said that agreement on the size of the Russian World War II lend-lease debt to the United States remains a central and difficult issue that may have to be resolved by the heads of both countries.

The United States is refusing new credits until the old debt is settled.

The Journal of Commerce

AND COMMERCIAL

AUG 15 1972

Investment Guarantees *to Page 1*

2 New Planks Likely In Soviet Trade Pact

By RICHARD LAWRENCE
Journal of Commerce Staff

WASHINGTON, Aug. 14 — The "comprehensive" commercial agreement the administration is developing with Moscow may include two so far unpublicized planks — U.S. Government guarantees for American investors in the Soviet Union and substantially relaxed U.S. export controls.

Neither proposal has been publicized by the administration, but, insiders report, both are among Commerce Secretary Peterson's negotiating instructions.

Insurance Essential

Insurance for U.S. business investing in the Soviet Union is regarded as probably essential to any major deals in which U.S. firms team up with Soviet enterprise in natural gas, oil or the exploration and processing of other Soviet natural resources.

If the two governments reach an understanding on investment, President Nixon, it is virtually certain, will ask Congress for authority to underwrite the American investors, for both political and commercial risks, informed sources here say.

The investment insurance would be administered by the Overseas Private Investment Corp. (OPIC), a U.S. agency that already covers American companies throughout most of the underdeveloped world, plus Romania and Yugoslavia.

In asking OPIC coverage for the Soviet Union, the President may phrase the request so that OPIC also could operate in other East European nations, such as Poland, and perhaps even, someday, in Mainland China.

'Background' Report

Secretary Peterson, in issuing a new "background" report today on the U.S.-Soviet commercial talks, said he believes that joint projects between U.S. business and the

Soviets are "potentially the single most important product" emerging from the negotiations.

Gas projects, he said, are "likely to be the largest" joint projects, but he also foresaw U.S.-Soviet ventures in oil, platinum, palladium, copper, chrome, zinc, and timber, as well in manufactures such as fertilizer, farm implements and cellulose.

"I see great promise in this whole area of joint projects," he said. Earlier he told reporters that President Nixon had instructed him to develop a "framework" for such investments. Although Mr. Peterson did not define the framework, it is understood to involve U.S. Government investment insurance.

Mr. Peterson, in today's report, said that two gas projects alone could require combined "capital inputs in excess of \$5 billion."

On export control, the commerce secretary reiterated that the administration position is that the controls are "a national security matter and not subject to negotiation."

But sources here predict that if and when a U.S.-Soviet commercial pact is negotiated, the U.S. probably will relax its curbs on shipments to the Soviet Union.

Possibly, the government will liberalize the Soviet controls closer to levels applied to Poland or Romania, or, it is suggested, it may agree to a further relaxation of international "COCOM" rules.

The COCOM (Coordinating Committee for Export Controls) commodity control list is the base for the export control policies of the NATO countries plus Japan. The U.S. traditionally had applied the toughest controls, its own commodity list including over 700 items not on the COCOM list.

In today's report, Mr. Peterson noted that the Soviets "object" to the controls, as they prevent Moscow from obtaining goods it needs and also because they cause "delay and uncertainty" for Soviet production planning.

Mr. Peterson also noted that the U.S. controls are being "constantly reviewed to reflect changing competitive circumstances. . . ." Past U.S. controls, he conceded, have been "anachronistic," keeping U.S. business from getting "a piece of the (Soviet) action."

The New York Times

AUG 15 1972

'Promise' Seen by Peterson In Operations by Companies

page 47

Special to The New York Times

WASHINGTON, Aug. 14—He said three American commerce companies were presently engaged in talks with the Russians on a "great promise" in the possible ventures to export liquefied natural gas to the United States. One company, the El Paso Natural Gas Company, was discussing collaboration with the Japanese to export liquefied gas to the United States West Coast from Soviet Far Eastern ports. Two others, Tenneco, Inc., the Texas Eastern Transmission Corporation, were discussing the export of liquefied gas to the American East Coast via the port of Murmansk.

In the strongest Administration endorsement yet of joint ventures by which the Soviet Union could find the means to pay for its anticipated large-scale increases in imports from this country, Mr. Peterson said it was necessary to think in "large and unconventional terms."

Mr. Peterson's views were contained in a lengthy report on his recent visit to the Soviet Union that was released today. It was called "U.S.-Soviet Commercial Relationships in a New Era," and, in addition to his comments, contained explanatory material and tables about the Soviet economic system.

In a telephone interview, Mr. Peterson expanded on his report to disclose that the United States was giving considerable attention to the possibility of joint ventures to exploit the Soviet Union's vast natural gas reserves in western Siberia.

He said three American commerce companies were presently engaged in talks with the Russians on a "great promise" in the possible ventures to export liquefied natural gas to the United States. One company, the El Paso Natural Gas Company, was discussing collaboration with the Japanese to export liquefied gas to the United States West Coast from Soviet Far Eastern ports. Two others, Tenneco, Inc., the Texas Eastern Transmission Corporation, were discussing the export of liquefied gas to the American East Coast via the port of Murmansk.

In addition, Mr. Peterson said, there were discussions with the Russians on the export of the United States of platinum because of the need for that metal in anti-pollution devices in automobiles.

The principal problem is to find the needed capital for these ventures. The natural gas ventures would require capital inputs of more than \$3-billion, Mr. Peterson said. This would exceed the ability of the United States Government's Export-Import Bank, and would require private investment as well.

In his report, Mr. Peterson listed many of the questions

Continued on Page 56, Column 4

SOVIET VENTURES ENDORSED BY U.S.

Continued From Page 47

that were being asked now, such as how much of a return should American companies receive, and what recourse would there be against a failure of the Soviet side to live up to its commitments.

In summary, he said, "I believe that these types of joint projects are potentially the single most important product of the new commercial relationship in which the two largest economies in the world each adjust their ways of doing business to the mutual benefit of both."

He cited, in addition to natural gas and platinum, oil, copper, chrome, zinc and timber as possible areas. He also said other projects might include the manufacture of such products as fertilizers, farm implements and cellulose.

Mr. Peterson was in Moscow last month as head of the joint Soviet-American trade commission, negotiating a possible trade agreement. The pact has still not been ap-

proved, largely because of the inability of the two sides so far to compromise differences over the Soviet Union's lend-lease debts during World War II.

He gave a very optimistic outlook, however, for long-range prospects on trade based on mutual benefit to the two countries. The Russians, in recent weeks, have already indicated that they will buy \$1-billion worth of agricultural products over the next 12 months, and have been pur-

well.

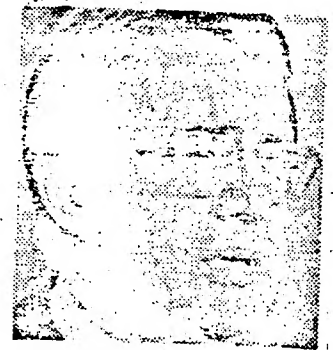
THE SUN

BALTIMORE

AUG 15 1972

In the world

Peter G. Peterson, the Secretary of Commerce, said he sees great promise in joint U.S.-Soviet projects to develop Russia's vast raw materials and energy resources with American loans once a trade agreement is signedPage A1



SECRETARY PETERSON
... hopeful on accords

Sun G?!

Benefits of trade bid cited

U.S. looks to helping Soviet on raw goods

Washington (AP)—The Secretary of Commerce, Peter G. Peterson, said yesterday that he sees great promise in joint United States-Soviet projects to develop Russia's vast raw materials and energy resources with American loans once a trade agreement is signed.

These joint ventures to extract gas, oil, platinum, timber and other resources could be potentially the single most important product of the trade pact currently being negotiated, Mr. Peterson said in a report on the talks.

Mr. Peterson, American chairman of the joint trade commission working on the agreement, said that many difficult issues remain to be settled. But he sounded generally optimistic on progress of the negotiations.

Advantages to both

A comprehensive trade agreement would be advantageous to both economies, he said, with the Soviet Union receiving U.S. high-technology goods and know-how while the U.S. would garner a favorable trade balance and receive access to Soviet raw materials.

The secretary said that agreement on the size of the Russian World War II lend-lease debt to the U.S. remains a central and difficult issue that may have to be resolved by the heads of both countries.

The United States is refusing new credits until the old debt is settled.

Mr. Peterson said the U.S. could not afford to keep its high-technology products from the Soviet Union because Russia can easily buy these items from other countries.

"There comes a point at which we must face the fact that business is business," Mr. Peterson wrote.

Joint projects with the Soviet Union would require immense amounts of U.S. capital that would stretch the lending capacity of the Export-Import Bank. The role of the bank itself may have to be changed to take care of the new situation, Mr. Peterson said.

He said his talks with American private financial sources

See TRADE, A2, Col. 3

"indicate that they are reluctant to make capital commitments on this scale with the Soviet Union without adequate assurance of a good return. Perhaps we will need to develop wholly new types of credit institutions."

As for American credit, he said the Soviet Union has repeatedly sought easy terms, such as 2 per cent interest over 10 years in the case of exports of American grain. The Russians eventually agreed to a higher rate of interest, he said, adding that he hopes this has broken the deadlock.

As for the wartime debt, Mr. Peterson said the Soviet Union holds that the debt "is not debt in the conventional sense"—that the war material provided them was a contribution "to a mutual war effort and that they paid in blood what we paid in war material. The Soviet Union suffered the loss of more than 20 million lives in that war."

The Washington Post

Times Herald

8-12-72

Saturday, Aug. 12, 1972 THE WASHINGTON POST

U.S. Seeking Large Soviet Trade Projects

By Carroll Kilpatrick
Washington Post Staff Writer

Secretary of Commerce Peter G. Peterson said yesterday that President Nixon had instructed him to explore specific ways by which large trade projects can be developed with the Soviet Union.

Peterson said it would be up to private companies to make the developmental and trade arrangements with the Soviets but that the government would try to establish the proper framework.

After reporting to the President on his trade talks in Moscow last month and on his lengthy private meeting with Communist Party chief Leonid I. Brezhnev, Peterson said he believed the President's goal of a trade accord this year could be realized.

Brezhnev spoke of the Soviet Union's "vast treasures" of energy and raw materials, Peterson said, which the United States increasingly needs. He said that arrangements for their extraction and sale would have to be made with the Soviets by private American companies.

But the President told Peterson to study specific ways by which these arrangements can be brought about, the commerce secretary reported.

He said that the Moscow meeting of the U.S.-U.S.S.R. Commercial Commission, established by the President and Brezhnev at the May summit

meeting, would be followed by another meeting in Washington later in the year.

Meanwhile, Soviet-American teams are exploring a variety of issues, such as a lend-lease settlement, business facilities in Russia for American businessmen, how to guard against dumping of goods by the Soviet and the protection of copyrights, Peterson said.

One other major subject under study is a maritime agreement, which Peterson predicted would be one of the first completed.

When sufficient progress has been made in these areas, the commission will meet here to try to wrap up an overall settlement, he said.

A lend-lease settlement, which Peterson described as one of the most complex before the commission, is not necessarily the major obstacle to agreement, he said, but it is one that "may have to be resolved at the highest levels."

He said this did not suggest that another meeting between the President and Brezhnev would be required, but that the two leaders would have to resolve the issue.

"We closed the gap a little" in the Moscow meeting, Peterson said, "but it is still a complex, difficult issue on which we have somewhat different views."

Until lend-lease is settled, he indicated, the President does not believe he should recommend to Congress that it

grant Russia most-favored nation tariff treatment, a concession the Kremlin regards as an essential ingredient of a trade accord.

Peterson also reported "good progress" on other issues during the Moscow meeting, which lasted from July 29 to Aug. 1, but he acknowledged that "complex, serious issues" remain.

"We are going to try to negotiate as comprehensive an agreement as possible," he said.

Asked about the possibility of early deals for purchasing billions of dollars of Soviet oil and gas, Peterson said it was "premature" to talk about specific business agreements until after the governments agree on a structure and on guidelines for trade.

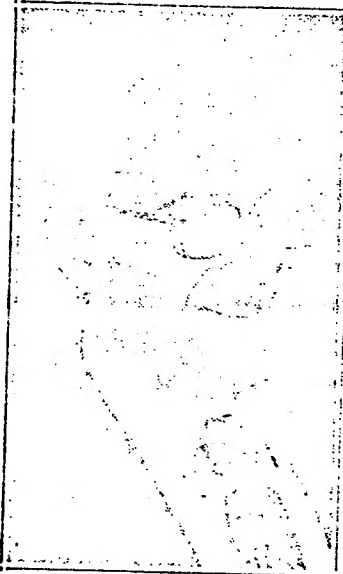
Peterson denied reports that he had discussed Vietnam. Declaring that the reports were without foundation, he said that "at no time was Vietnam discussed."

NEW YORK DAILY NEWS

August 12, 1972

Broad Trade Pact With Russia Seen

Washington, Aug. 11 (UPI) — Commerce Secretary Peter G. Peterson predicted today that a comprehensive trade agreement with the Soviet Union would be signed before the end of this year.



Peter G. Peterson
Reports on mission

Peterson reported to President Nixon on his July mission to Moscow, and then told reporters: "the President's goal of having the terms of a trade agreement by the end of the year is a goal we can meet."

He predicted early success in discussions aimed at opening the ports of the United States and the Soviet Union to each other's ships.

Lend-Lease Debt

More troublesome, he said, are discussions on the Soviet World War II lend-lease debt, the Soviet demand for most-favored-nation treatment and credit arrangements.

Peterson said the dispute over the lend-lease debt would probably have to be resolved by direct communications between Nixon and Communist Party General Secretary Leonid Brezhnev.

Peterson said "working group" negotiations will resume in about two weeks and that he expects to meet here this year with cabinet-level Soviet trade officials.

PHILADELPHIA INQUIRER

August 12, 1972

Charles Bartlett

Soviet trade talks progress, but slowly

WASHINGTON. — The commercial negotiations with the Soviets are on the track, and Secretary of Commerce Peter Peterson has come back from Moscow with a clearer view of where they are headed.

He is hopeful they can build in both countries, a "vested economic interest" in keeping the peace. But the expanded trade relations will only be a constructive force if great pains are taken to explode in advance the potential areas of misunderstanding. So Peterson is not pressing for a quick deal.

He is only slightly less irritated than the Russians at published reports that the slow pace of progress toward a trade agreement is linked to the pace of Soviet efforts to produce a settlement in Vietnam. This linkage does not exist, Peterson insists, but the Soviets know that congressional approval of tariff concessions may hinge on the quality of political relations between Moscow and Washington.

These negotiations are not, Peterson avows, a matter of bargaining away U. S. security merely to see U. S. trade statistics improve. The administration is treating the export controls on sensitive technology as a national security concern which is not subject to negotiation. Even in raw materials like natural gas, excessive dependence on the Soviets is improbable because American imports will be an insignificant share of American consumption for many years.

But the trade potential is significant, Peterson believes, because the two economies are so diverse that their needs will mesh. The Soviets have more energy and mineral resources while the Americans have agricultural products and high technology which the Soviets need but cannot match.

The Soviets set out, for security reasons, to be self-sufficient, but a nation's wealth and growth requires, in these complex times, specialization and interdependence. This mistake caused their growth to slow down, so the Soviets are being forced to shift the application of their resources. This will require big infusions of capital, technology, and know-how from the West.

Peterson makes the interesting point that the shift in domestic economic strategy forces a shift in Soviet foreign policy. The old economic policy, involving a heavy sacrifice of the consumer's priorities, obliged Soviet leaders to be able to point to foreign tensions as the cause of the deprivations. Now they must minimize the political tensions to justify their economic detente.

The Soviets want, Peterson feels, to maintain their status in a world where the indices of power will be increasingly economic. And yet they can't hope to keep pace by one-time purchases of factories and know-how, because modern technology is a continuing process and the most available technology is apt to be what the seller knows he can soon make obsolete.

So they need joint ventures and they need to loosen their centrally directed economies. Peterson illustrates their problem by the cases of Polaroid and Xerox, the two highly successful products that were totally rejected by all the big companies. These breakthroughs could not have occurred in a centralized economy.

The Soviets are tough in these negotiations and they have taught the Americans to find a reasonable position and cling to it. If they cling hard enough, the Soviets will be apt to jump suddenly, as they did in the grain purchase, into agreement. But on issues like the lend-lease debt the reasonable position is more obscure and the divergences persist.

So this is not something that can be done quickly. But if the deals are made carefully and thoughtfully, the world is apt to be safer for their impact.

THE SUN

BALTIMORE

8-13-72

Dow up 12; U.S.-Soviet talks halt

8-13

BALTIMORE SUN New York.

The first meeting of the Soviet-American commission to negotiate new trade agreements and expand trade between the two countries has ended—without agreement.

Peter G. Peterson, the Secretary of Commerce and U.S. representative at the talks, came away saying that much progress had been made, but that there were still major issues unsettled and the settlement would require decision at a higher level. Soviet officials, in private, are saying much the same thing.

Meanwhile, a surprisingly strong rally Friday turned a dormant stock market into a dynamic one, without the benefit of any specific news developments.

The closely watched Dow-Jones industrials rose 12.42 points to 564.18, following the previous week's gain of 25.66 points, and put the Dow within 4 per cent of the 1,000 mark.

The New York Stock Exchange's composite index of all common issues finished Friday at 61.56, its highest reading on record. Standard & Poor's 425-stock index also broke into new high ground.

What seemed to happen was a shedding of various worries—the Vietnam conflict, possibly higher taxes in 1973 and a slowing down in the rate of monetary growth—in favor of the brighter side of things, such as the expanding economy and rising corporate earnings.

Perhaps another psychological lift came from a survey indicating that economic controls, after one year, have worked out better than many people had expected.

The Soviet-American trade commission was created by decision at a higher level. President Nixon and the Soviet Communist party general secretary, Leonid I. Brezhnev, agreed last May to set up the commission when they were unable to agree on the substance of the trade issue themselves.

The commission talks took place in Moscow last month. Mr. Nixon gave public display of his commitment by calling Mr. Peterson to confer in San Clemente, Calif., just before the secretary took off for Moscow, and by a publicized meeting with him again at the White House Friday. Mr. Brezhnev matched the President's gesture by calling Mr. Peterson to the Kremlin to confer while he was there.

Two questions

All this high-level publicity gives rise to two questions: Why is there still no agreement? And why is it all so important?

One fact stands out. Even without an agreement, trade between the two countries is growing. It has been growing, in fits and starts for a decade now. And lately, for a variety of reasons, it appears to have been surging.

The Soviet Union, for its part, needs some products which only the U.S. can supply, or which the U.S. can supply best, such as advanced technological systems and equipment.

In other words, there are basic forces at work to expand trade between the world's two greatest powers.

The biggest development was the disclosure that the Russians might buy a billion dollars' worth of farm products from the U.S. in the next 12 months. These purchases are not even involved in the official commission negotiations, but they serve, therefore, to underscore the very practical nature of what has been happening.

Is this to say that there is no need for agreement? No. There are still some obstacles to Soviet-American trade—some real and some not quite so real—and this is what the negotiations are about.

ATLANTA JOURNAL & CONSTITUTION

August 6, 1972

SOVIETS TO SHOW AT U.S. FAIR

Ivan an Avid Merchant

By ELDON BARRETT

SEATTLE, Wash. (UPI) — Vladimir Pavlov cited a Russian proverb to explain why the Soviet Union is so enthusiastic about participating in the Washington State International Trade Fair set for Aug. 11-20.

"It is better to see one time

than to hear 100 times," said the deputy chief of the USSR Department of Exhibitions Abroad through his interpreter during an interview.

There also is an axiom from the world of international finance that applies in this case: "Hold the gold."

Pavlov, who will direct the Soviet Union exhibit at the Seattle fair known as Unimart '72, said the Russians want to utilize it as a worldwide showcase for their increasing inventory of exportable wares. It ranges from toys to the 300-ton Bagnaty floating crane.

They also want to sell a lot of goods to the United States in an effort to alleviate the imbalance of trade that is causing a hardship on the Soviet Union's foreign exchange position and they want to force the Russians to give up some of their gold reserves.

"I think this fair is one of the steps by which we can normalize things," said Pavlov, "... so your businessmen can see our goods. And it also gives us an opportunity to make contacts with the other 15 countries participating. It is for these reasons my country accepted the invitation to Seattle."

But Pavlov made it clear that Uncle Sam is the potential customer at which the Russian pitch is being directed.

The fair comes about a month after the United States agreed to sell \$750 million worth of feed grains to help develop the Russian livestock industry. This deal will further aggravate a Soviet trade deficit that has been seen by some specialists as a barrier to expansion of trade between the two great powers.

In 1971, the United States exported \$121 million worth of goods to the USSR. Russia, on the other hand, sent only \$50 million worth to the United States. This 6-to-1 gap since the first of the year probably has widened to about 5 to 1.

The Russians thus have become increasingly dependent on credit arrangements which eventually must be paid in foreign exchange. Consequently, Unimart '72 comes at a time when the Russians are anxiously seeking new trade outlets. It also will be the first step in this direction since President Nixon visited Moscow this year. And it will be the first time since its one-country show in New York in

1959 that Russia has put on a trade display in this country.

Pavlov explained that the fact the exhibit will be in Seattle had special significance. The Soviets are anxious to develop trade among countries on the Pacific Rim, particularly on the West Coast of the United States which has not been exposed to Soviet goods previously.

8-12-72

Chicago Tribune

Trade with Russia
Near: Nixon Aide

8-12

BY ALDO BECKMAN

Chicago Tribune Press Service

WASHINGTON, Aug. 11—Secretary of Commerce Peter G. Peterson, just back from a round of talks with high Soviet officials in Moscow, told President Nixon today he is confident a trade agreement can be reached with Russia by the end of this year.

He said the recent talks "closed the gap a little bit" on the question of Russia repaying World War II loans, but predicted that final resolution of the controversial problem will have to be consummated "at the highest level of the United States government."

Peterson, in a White House press conference after his meeting with Nixon, said that the question is "understand-

ingly a serious one" for the Soviets as they lost 20 million persons in the war.

He denied reports that he had discussed the Viet Nam War with Soviet officials, insisting the conflict was never raised in any of his talks.

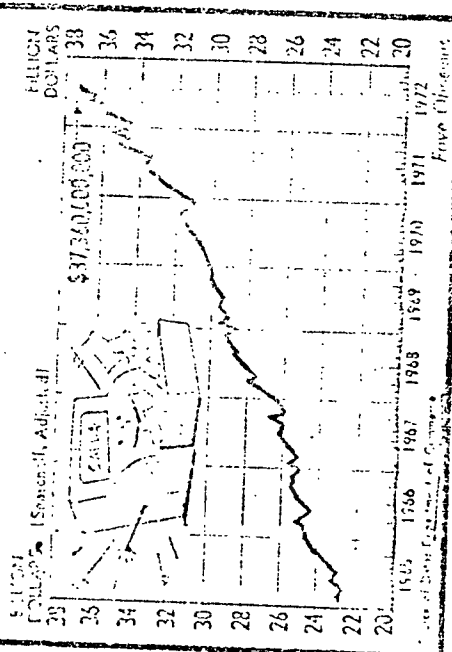
Peterson was in Moscow as the head of the U. S. team on the Commercial Commission created during the Moscow summit and charged with working out a trade agreement between the two nations.

He said there was "a considerable amount of 'progress' made toward a maritime agreement and named business facilities, credit, copyright laws, and most favored nation treatment for Moscow.

8-13-72

World of Business
CHICAGO TRIBUNE 8-13

TOTAL RETAIL SALES IN THE U.S.



BUSINESS INDICATORS

	Latest Week	Previous Week	1971
Steel Production (tons)	2,141,094	2,376,000	917,000
Auto Prod.	77,359	56,153	85,551
Elec. Pwr. Output, kw-hr.	36,036	37,559	51,172
Daily Oil Output (bbls.)	9,727,000	9,668,000	9,651,000
Soft Coal Prod. (tons)	11,620,000	11,810,000	11,560,000
Freight Carloadings	506,062	499,150	4,002,233
Retail Sales, Unadjusted ..	\$ 8,550	\$ 8,151	\$ 7,750
*Coml., Ind., Agric. Loans ..	\$87,921	\$87,737	\$93,811
*Money in Circulation	\$62,681	\$62,418	\$69,014

* 1969, 1970 omitted

16 AUG 1972

THE CHRISTIAN SCIENCE MONITOR

U.S. official bullish about Soviet trade

By Philip W. McKinsey
Special correspondent of
The Christian Science Monitor

Washington

The outlook for expanded United States-Soviet trade is bullish. Commerce Secretary Peter G. Peterson, chief U.S. trade negotiator with the Soviets, is no longer just "hopeful" that a comprehensive commercial agreement can be worked out by the end of this year; he is ebulliently confident. And dramatic individual deals already are taking shape.

Mr. Peterson, who spent 12 days in Russia in late July and early August in the first meeting of the U.S.-Soviet Joint Commercial Commission, reported to President Nixon last week that "good progress" was made in his talks with Russian officials up to and including Communist Party Chief Leonid I. Brezhnev. The issues involved are "very complex," Secretary Peterson acknowledged, but "we're both very serious negotiators."

The talks on a broad commercial agreement, which were arranged during Mr. Nixon's trip to the Soviet Union in May, are taking place against a background of here-and-now deals between the Soviet Government and U.S. companies that far exceeds anything that was anticipated a few months ago.

Grain leads parade

Grain purchases lead the parade. After haggling over credit terms, the Soviets last month agreed to buy \$750 million worth of grain from this country over a three-year period — a deal that, all by itself, assured that U.S.-Soviet trade would surpass past levels. Last year, total trade between the two countries was only about \$220 million, \$162 million of Soviet purchases from the United States and \$58 million of U.S. imports from Russia.

But forced to shop abroad by disastrously poor harvests, the Russians are buying U.S. grains at better than three times that rate now. U.S. officials say Soviet grain purchases this year alone may total \$1 billion.

The Soviets also are buying at an increased clip from U.S. industrial equipment manufacturers as they continue work on their giant Kama River truck-manufacturing complex. Even before the extent of the Soviets' current grain purchases had become known, two-way trade between the two countries had been expected to approach \$600 million this year on the strength of such developments as the Kama River contracting and the multifaceted technological agreement worked out in July between the Soviets and Occidental Petroleum Corporation.

Mr. Peterson's talk with the Soviets, aimed at producing a comprehensive agreement that in effect will spell out the rules of the game for trading between Russia's state-controlled economy and the diverse companies that make up the U.S. side of the equation, also seem to be progressing as smoothly as any officials dared hope.

The key-sticking point of settling Russia's World War II lend-lease debt "is probably going to have to be resolved at the highest level," Mr. Peterson said after his meeting with the President Aug. 11, although he said that his talks in Moscow had "closed the gap a little bit." But he said he expected agreement this year.

The closely linked question of granting Russia most-favored-nation treatment in setting tariffs — that is, assessing on Russian goods the same tariffs that are applied to other U.S. trading partners — will need congressional as well as White House approval. But that is expected to fall into place easily once the 27-year-old lend-lease issue is settled.

Credit accord reached

Another knotty issue, credit terms, apparently has been mostly squared away. In discussions leading up to the three-year grain deal, the Soviets started out seeking extremely favorable credit terms, on the order of 2 percent a year over 10 years, but settled for normal market terms.

In the most recent round of talks in Moscow, Mr. Peterson reported, progress was made on getting the Soviets to accept the idea that any credits advanced to them — including possible credits from the Export-Import Bank — would be on normal market rates, not "concessionary" terms. Likewise, he said, Soviet credits made available to U.S. importers would be offered at standard terms.

Working groups are studying other areas that will be part of the comprehensive trade pact — such matters as laying out what sort of business facilities will be made available to traders and companies on both sides, agreeing on procedures for arbitrating commercial disputes, achieving understanding on anti-dumping rules, and agreeing on copyright and patent protection.

The pace of progress on this level will determine the precise date of the next meeting of the U.S.-Soviet joint commission, Mr. Peterson said, although that session will take place some time during the fall in Washington.

TIME, AUGUST 21, 1972

page 63

EAST-WEST TRADE

Tapping Soviet Treasure

At his vacation home on the Black Sea last month, Leonid Brezhnev smiled conspiratorially across a plate of watermelon slices at U.S. Commerce Secretary Peter Peterson. "The Soviet Union has vast treasures for generations to come," the Communist Party boss said, "and we are now prepared to share them with you." He also told a joke about the peasant who bought eggs for two rubles, sold them for two rubles, and exclaimed "I am in business!" Brezhnev's point: the U.S. and the Soviets should not strike a trade bargain merely for the sake of making a deal, but should try large-scale ventures that would yield solid profit to both. Later, the usually matter-of-fact Peterson quoted a rather lyrical Alexander Hamilton remark that "the spirit of commerce has a tendency to soften the manners of men and to extinguish those inflammable humors which have so often kindled wars."

Peterson ended his talks convinced that more big deals like the recent three-year, \$750 million bilateral grain agreement are likely. Indeed, U.S. agriculture officials predicted last week that the Soviets would expand their purchases of farm products to as much as \$1 billion in the next twelve months alone. Last week Peterson reported to President Nixon that eight days of trade talks with Soviet officials had disclosed "a top-level Soviet decision that it is important to get access to Western products." He also briefed TIME Correspondent Jerrold Schecter on the promise and the problems of Soviet-American trade. Schecter's report:

Peterson's dominant impression was that in return for American manufacturing expertise and equipment, the Soviets have concluded that they should share some of their unmeasured (in the West, at least) mineral resources. His Soviet hosts were quite specific about what they seek from the U.S.: advanced machine tools and techniques for making such products as trucks, farm machinery and color TV. "They want the latest and the best of our sophisticated manufacturing know-how," says Peterson. Yet the Soviets have no illusion that their consumer goods will be competitive in the U.S. "We are a good market for vodka and some caviar, but the Russians have surveyed American and worldwide demand for energy. The

PETERSON (LEFT FOREGROUND) & SOVIET TRADE OFFICIALS IN RED SQUARE
Commerce has a tendency to soften men's manners.

things that they have and that we most need are energy and raw materials." Peterson and the Soviets discussed three possible projects:

- Exploitation of Siberian natural-gas reserves. Two projects are being explored, one involving on the U.S. side a consortium of Tenneco, Texan Eastern Transmission and Brown & Root, the other El Paso Natural Gas and possibly Occidental Petroleum. The two together could require as much as \$10 billion to \$14 billion of U.S. development capital, and that may be too much for private U.S. financial institutions. Some new form of Government financing will probably be needed.

- Mining and processing Soviet oil, chrome, copper, nickel, palladium and platinum, which U.S. auto manufacturers may need to make antipollution devices (see story on page 65). The Soviets would like U.S. firms to supply advanced mining equipment in return for long-term, fixed-price contracts to buy the processed minerals.

- Joint ventures to produce cellulose and chemical fertilizers. Peterson says U.S. companies would build the plants, and the Soviet Union would furnish labor and raw materials.

There are many obstacles in the way before the plans can be implemented. The most troublesome are quasi-ideological: the capitalist U.S. and socialist Soviets have different business systems that find it difficult to make contact.

To begin with, the Soviet government leaders that Peterson met, he says, are at once "policymakers, negotiators and executors. They set the priorities and allocate the resources." By contrast, the U.S. side of prospective bargains would have to be fulfilled largely by executives of private companies, not the Government. Peterson is naming a U.S. panel to work out ways for Washington

and private companies to coordinate negotiations with the Soviets.

Beyond that, the Soviet and American legal systems differ fundamentally, so there will have to be some special arrangement to settle commercial disputes arising between U.S. companies and Soviet government organs. The Soviet Union is not yet a party to international copyright conventions, and there is no bilateral tax treaty between the two countries.

Even some of the things that U.S. businessmen take for granted are rare or nonexistent in Soviet cities. For example, there is no such thing as a commercial office building in the Soviet Union, and a storefront in an apartment house is currently the best that the country can offer. Waiting periods for telephone and telex communication with home offices in the U.S. can seem endless. Nor can a U.S. businessman in Moscow place an ad in *Pravda* for secretarial help; secretaries must be supplied through a government agency that deals mostly with diplomats.

Another round of U.S.-Soviet trade talks will begin next month in Washington. An immediate aim will be to establish the rules for arbitrating commercial disputes and arranging office facilities for U.S. executives in the Soviet Union.

The essentials for doing business are there. Each side has something the other wants, and they are willing to talk in those terms rather than debate cold war politics. Brezhnev and Peterson put it rather neatly in their talk beside the Black Sea. Brezhnev: "The Soviet Union and the United States are the two largest economies in the world. It is time that commercial and trade issues move to the frontier." Peterson: "By their diversity, the U.S. and the Soviet Union are natural trading partners."

INTERNATIONAL TRADE REPORTER'S, SURVEY & ANALYSIS OF CURRENT DEVELOPMENTS No. 1374 August 11, 1972 page 1

Peterson Surveys U.S.-Soviet Joint Venture Prospects

Commerce Secretary Peter G. Peterson says American companies won't get much help from the U.S. Government in negotiating joint ventures with the Soviet Union.

Natural resources. "In the final analysis," he told a Moscow news conference last week, "it would be a deal between perhaps the Soviet Government and a U.S. company." His comments came at a news conference following a three-hour meeting with Communist Party Chief Leonid Brezhnev. Secretary Peterson said his discussions with the Communist leader have convinced him that Mr. Brezhnev is ready to explore "major joint projects" involving Russia's major natural resources—oil, gas, chromium, and nickel. "He obviously was also interested in joint manufacturing projects, which in some cases would flow naturally out of these raw materials resources," Mr. Peterson added.

Obstacles to trade. Certain roadblocks still stand in the way of a bilateral trade agreement between the United States and Russia, and two of the biggest ones are resolution of Russia's lend-lease debt to the U.S. from World War II and most-favored-nation status for Soviet goods. But just as important—and perhaps more so, since it cannot be resolved through negotiations—is the problem posed by the role in commerce of each country's Government. "The role of our Government is obviously a very different role from the role of the Soviet Government," Mr. Peterson said. "The Soviet Government not only sets the policies, but also makes the deals, and it also executes the deals. In the case of the U.S. Government, we do not make deals . . . Except to the extent that we are extending credit on specific deals, it is the businessmen of America, not the Government, who are going to play this game. Many of the issues we have, it seems to me, arise from the fact that we are dealing with a nonmarket economy on the one hand and a market economy on the other."

Types of ventures. In any case, indications from the U.S. Government are that the Administration wants to keep a low profile in negotiations for joint U.S.-Russia ventures. Secretary Peterson says he can visualize two types of joint ventures—those carried on entirely by private companies "without any government involvement at all," where American firms contribute their technological know-how and the Soviets contribute the resources, and those involving a slight U.S. Government role in the financing of the project. This latter type of joint venture—one involving a significant government involvement—probably would be most prevalent in the energy field, Secretary Peterson explained, since such projects involve a level of investment "substantially higher than any that have been traditionally considered in Export-Import Bank financing." Since some of the anticipated projects involving energy and gas run in the range of billions of dollars, he said, "the presumption is that the U.S. Government would play a role in the financing . . . If we are dealing in the field of energy, this is obviously a field in which there is government coordination required." Mr. Peterson's comments on joint ventures in the energy field represent the first government statement on the subject.

8-15-72

The Evening Star

The Washington News

CHARLES BARTLETT

U.S.-Soviet Trade No Quick Deal

Commercial negotiations with the Soviets are on the track and Secretary of Commerce Peter Peterson has come back from Moscow with a clearer view of where they are headed.

He is hopeful they can build, in both countries, a "vested economic interest" in keeping the peace. But the expanded trade relations will only be a constructive force if great pains are taken to explore in advance potential areas of misunderstanding. So Peterson is not pressing for a quick deal.

He is only slightly less irritated than the Russians at published reports that the slow pace of progress toward a trade agreement is linked to the pace of Soviet efforts to produce a settlement in Vietnam. This linkage does not exist, Peterson insists, but the Soviets know that Congress' approval of tariff concessions may hinge on the quality of political relations between Moscow and Washington.

These negotiations are not, Peterson avows, a matter of bargaining away U.S. security merely to see U.S. trade statistics improve. The administration is treating the export controls on sensitive technology as a national security concern which is not subject to negotiation. Even in raw materials like natural gas, excessive dependence on the So-

viets is improbable because American imports will be an insignificant share of American consumption for many years.

But the trade potential is significant, Peterson believes, because the two economies are so diverse that their needs will mesh. The Soviets have more energy and mineral resources while the Americans have agricultural products and high technology, which the Soviets need but cannot match.

The Soviets set out, for security reasons, to be self-sufficient, but a nation's wealth and growth requires, in these complex times, specialization and interdependence. This mistake caused their growth to slow down so the Soviets are being forced to shift the application of their resources. This will require big infusions of capital, technology, and know-how from the West.

Peterson makes the interesting point that the shift in domestic economic strategy forces a shift in Soviet foreign policy. The old economic policy, involving a heavy sacrifice of the consumer's priorities, obliged Soviet leaders to be able to point to foreign tensions as the cause of the deprivations. Now they must minimize the political tensions to justify their economic detente.

The Soviets want, Peterson feels, to maintain their status in a world where the indices of power will be increasingly economic. And yet they can't hope to keep pace by one-time purchases of factories and know-how because modern technology is a continuing process, and the most available technology is apt to be what the seller knows he can make obsolete.

So they need joint ventures and they need to loosen their centrally directed economies. Peterson illustrates their problem by the cases of Polaroid and Xerox, two highly successful products that were totally rejected by all the big companies. These breakthroughs could not have occurred in a centralized economy.

The Soviets are tough in these negotiations and they have taught the Americans to find a reasonable position and cling to it. If they cling hard enough, the Soviets will be apt to jump suddenly, as they did in grain purchase, into agreement. But on issues like the lend-lease debt, the reasonable position is more obscure and the divergences persist.

So this is not something that can be done quickly. But if the deals are made carefully and thoughtfully, the world is apt to be safer for their impact.

Soviets See Big Trade Deals Following Seattle Exhibition

By TOM RYAN

SEATTLE (FNS) — The Russians have their foot in the door and expect to do some big business with U.S. buyers at an international trade fair here.

The Soviet Union — showing for the first time at an American trade fair — is one of the 14 foreign countries exhibiting at Unimart '72, an exhibition which opened Friday in the Coliseum of the Seattle Center, site of the 1962 World's Fair. By the time the show closes Aug. 20, some 100,000 persons — including more than 5,000 buyers — are expected to attend.

While politely flexing their business muscles, the Soviets have captured the spotlights at this trade fair. They are here with order books in private sales conference rooms, making it quite clear in soft-sell tones that they want to do business with American buyers.

Although the Nixon Administration has been setting the stage for freer trade with Russia, tariff barriers on most goods still prohibit the Soviet Union from being competitive in this country.

But the trade picture between the United States and USSR is brightening. While Unimart '72 was opening here, Secretary of Commerce Peter G. Peterson in Washington still was publicly outlining Russia's plan to buy \$1 billion of U.S. grain this year.

Vladimir N. Sushkov, general manager of the Soviet Ministry of

Foreign Trade, said his country's presence at Unimart '72 coincides with the beginning of a new period in Soviet-American relations.

Sushkov, chief of a Russian delegation of about 80 members, also said: "We have come here to determine our prospects for trade. . . We have not only exhibits, but a commercial center where we have people who are authorized to sign contracts."

He also was critical of U.S. import duties, some of which he termed "totally unacceptable." For example, he said a quart of Russian vodka in this country would have to be priced at about \$8, or about double the price of domestic vodka in Los Angeles.

Unimart '72 has only a token display of metalworking equipment. A Russian trading

company is demonstrating two machines — a laser plant for hole drilling and a precision electric arc machine for making tools such as dies and master emplets.

The Kvant-9 laser plant, designed for drilling holes in any material, "is most effective in drilling rough holes in diamond fiber," according to the firm, V/O Techmasheexport. The laser unit drills holes with a diameter from 5 to 80 micromicron to a depth of up to 3 mm. The Kvant-9 is being sold to France, the firm said.

The Russian Model A207.23 electric arc machine is said to be "capable of machining both current-carrying and semi-conducting materials practically with no change whatsoever in their physical and chemical properties."

Raw Materials Developments Major Goal for Soviet Talks

WASHINGTON (FNS) — President Nixon is urging his trade negotiators to stress joint development of raw materials programs as a top goal in current talks with the Soviets, said Commerce Secretary Peter Peterson.

"There is no secret our needs in this field are rising," Peterson declared after an initial meeting last week with the President following his (Peterson's) recent trade mission to Moscow.

Peterson reported on his trip and later told newsmen that the administration still hopes to have the outlines of a comprehensive U.S.-Soviet trade treaty ready by year's end.

He also discounted "tantalizing speculation" that the efforts to negotiate a treaty are somehow linked to the Vietnam War, and Washington's reported attempts to press for Russian mediation in the war as quid pro quo for a treaty settlement.

Peterson insisted the subject of Vietnam never arose during his talks with Soviet leaders.

Peterson said the Moscow talks produced progress in several areas, including the paramount problem of Russia lend lease debts, credit terms and maritime issues.

But he also stressed that such "serious" negotiation still lies ahead on Russia's bid for Most Favored Nation (MFN) treatment by the U.S., and in "less cosmic" areas such as business facilities which Washington seeks for U.S. industry in Moscow.

Peterson said that U.S.-Soviet "working groups" will start renewed talks in each of these areas in a few weeks, and that a further high-level meeting is expected in Washington before the end of the year. The specific date for that meeting, however, will depend upon the progress made at the working group level.

ELECTRONIC NEWS (weekly)**August 7, 1972****By EBEN S. TISDALE**

NO MATTER WHAT THEIR OUTCOME, the trade talks currently underway in Moscow will not materially assist U.S. manufacturers of high-technology products unless the United States stops handicapping itself by continuing to control the export of many items which are not controlled by our foreign competitors.

While it is essential to the national security that our government continue to restrict the export of some items to the U.S.S.R. and other East European destinations, restricting items which can be bought freely from our Western European or Japanese competitors does not benefit national security but rather results in a worsened balance of payments situation, fewer export sales for U.S. companies and fewer jobs for American workers.

There is plenty of room for improvement if U.S. firms, particularly those in the high-technology industries, are going to compete effectively in the U.S.S.R. and other Eastern European markets. The figures tell the story.

In 1970, for example, only some \$350 million, less than 1 per cent of the \$43 billion in U.S. exports, went to Eastern Europe. At the same time, exports to Eastern Europe from other Western countries were in excess of \$8 billion. Put another way, in terms of total trade, the U.S. share of the world market in 1970 was approximately 16 per cent. In Eastern Europe this share was only 3 per cent.

This situation is much more dramatically expressed when high-technology products are considered. For example, world trade in 1969 (the last year for which full marketing statistics are presently available) of "other electronic measuring and controlling instruments" (SITC Category 72952) was almost \$1 billion. The U.S. share of the world market was approximately 36 per cent — some \$350 million. In 1969 the U.S. exported more than twice the volume of SITC 72952 commodities as West Germany, over three times that of the U.K. and about seven times that of Japan and France.

In contrast, U.S. performance in the Eastern European market in 1969 was discouraging. In that year, Free World exports into the Eastern European market of SITC 72952 commodities was some \$55 million. West Germany's share of the East European market was some 36 per cent. The United Kingdom and France each held a market share of close to 15 per cent, while the United States and Japan were close together at some 7 per cent.

THE ROOT CAUSES FOR THE POOR PERFORMANCE of U.S. exports to Eastern Europe are many and complex. They include some things over which the U.S. has no control such as: 1) The historic close and complementary trading relationship existing between Eastern and Western Europe; 2) The rigidities of the Communist state trading systems and; 3) The shortage of hard currency in the East.

The poor performance of U.S. marketing forays into Eastern Europe is also due to the almost total lack of U.S. credits to help finance Most-Favored-Nation tariff treatment. These issues are presently under discussion in Moscow.

There is another factor handicapping U.S. exporters in their potential dealings with the Soviet Union and other Eastern European countries. This is, of course, the excessive restrictions imposed upon U.S. firms by our government. These restrictions are preventing U.S. exporters from competing on an equal basis with our foreign competitors in the Eastern European markets.

At the present time, the United States controls 495 classifications of goods and technology by multilateral (Cocom) agreement with our allies. In addition, the United States chooses to retain unilateral controls on approximately 461 classifications of goods and technology. The United States is the only Cocom country which controls the export of a significantly greater number of items than those which the Cocom countries agree to control. It is true that some of these items under U.S. unilateral control are eventually granted export licenses, but even so, the delay and uncertainty in the licensing process often costs the American exporters business.

Currently, there is legislation pending in the congress (S. 3726) to alleviate the problem of excessive controls over U.S. exports to the U.S.S.R. and other countries of the Eastern Bloc. The legislation is also designed to speed up the export licensing process for shipments to these destinations.

MORE SPECIFICALLY, S. 3726 WOULD AMEND the Export Administration Act of 1969 to:

- Require the Secretary of Commerce to undertake a study to determine which goods and technologies should no longer be subject to export control.
- Direct the Secretary of Commerce to remove U.S. export controls from any unilaterally controlled item which is freely available from foreign sources, unless adequate evidence is presented to demonstrate that decontrolling the item would threaten the national security.
- Require the Secretary of Commerce to report on his actions in 6 months by listing the reasons for retaining U.S. unilateral controls on any items and the reasons for retaining any procedures concerning the licensing process which are more burdensome than the procedures used by our allies.
- Require the Secretary of Commerce to create industry-government technical advisory committees to review each group of goods and technologies which could be subject to export controls and to advise the secretary on the level of all export controls, including both U.S. and Cocom, on the groups of items within its technical competence.

These recommended changes in the Export Administration Act closely parallel those suggested by WEMA and other industry groups which participated in congressional oversight hearings on East-West trade earlier this year. Despite the fact that the Administration has asked the Congress to make no changes in the act, it seems likely that the legislative branch will adopt these amendments. If so, it should give U.S. exports to the U.S.S.R. and other Eastern Bloc countries a shot in the arm.

Mr. Tisdale is Government Affairs Manager at WEMA.

WHAT AMERICA WANTS FROM RUSSIA IN TRADE DEALS

*Exclusive Interview With Peter G. Peterson,
Secretary of Commerce*

Is there real progress toward a trade agreement with Russia? Will an agreement bring practical benefits to U. S. businessmen? What did American negotiators accomplish on their

Q Mr. Secretary, on your recent trip to Moscow, did you reach any agreements that will result in a substantial increase in trade between the U. S. and the Soviet Union?

A No, we did not reach any specific agreements, but then, we didn't expect to at this first meeting. Our first task was organizational, that is, defining what our charter will be, and who is going to do what. Those things we have agreed to.

Our target remains the same as the one President Nixon announced to the Congress when he came back from the Moscow summit meeting—which is to have the terms of a trade agreement negotiated by the end of this year. I saw nothing in Moscow to make me believe we can't reach that goal.

Q What would be included in such a trade agreement?

A Well, we really have two choices: We could settle for a piecemeal solution, or we can hold out for a comprehensive agreement.

Our clear choice is the comprehensive agreement, and I'll tell you why. In our private-enterprise system, the role of the U. S. Government is not to make deals—though that's sometimes hard to communicate to the Soviet officials, who are both policy makers and deal makers and program managers. The Government's role is to set the policies and assist in the creation of the institutions and mechanisms which form the structure of an equitable and orderly commercial environment. If we don't get this done at the outset, we could end up later on facing problems that could have exacerbating political effects.

Q In what way? Can you give examples?

A Certainly. Let's take the issue of dumping. We are dealing with a country which is not a signatory to any of the international-trade conventions which we subscribe to. This raises adjudicatory problems. Moreover, the Soviet Union is a state monopoly in which product costs have very little meaning. Prices can be set very subjectively and very artificially. This means that there are also definitional problems. What happens, for instance, when someone claims the Soviet Union is dumping—selling products at less than cost? How do you measure their costs?

So we need to define our terms, and we need to establish processes so that, when these inevitable problems arise, they can be worked out, instead of creating a political and commercial *cause célèbre* a year or two from now.

recent trip to Moscow? Peter Peterson, who headed the U. S. team, gives a first-hand report in this interview held in the conference room of "U. S. News & World Report."

Credit is also a problem. If the President decides that the over-all trade agreement makes sense, he has the authority to extend Eximbank credit [loans through the Export-Import Bank of the United States]. In our view, it is important that there be a clear understanding of what we mean by "credit."

The Russians are great bargainers. When we were working on the grain deal, they wanted 10-year terms and 2 per cent interest. We had to make it clear that any credit we offered would be on nonconcessionary terms and through the regular approval procedures. And, as you know, when the big grain deal went through, it was on standard credit terms—three years at 6½ per cent.

We also said to them that we thought it was appropriate as well that U. S. firms get credit from the Soviet Union.

Q Are they willing to agree to that?

A They are willing to give us reciprocal credit, and we now know how they go about doing this and what the terms are. But again, we think we want to get the issue settled now—not two years from now when some American importer wants credit and finds there has been only a general sort of understanding, or I should say misunderstanding, that leads to disappointment.

Business facilities are another example of what we want included in a comprehensive agreement. When the American businessman goes abroad, he is accustomed to operating with a good deal of freedom in contacting customers, setting up offices, installing Telex facilities for communication, and finding living quarters.

The Soviet Union, by our standards, has quite limited facilities for foreign businessmen. One of the things we were talking about in Moscow was what Russian officials can do to expand these facilities substantially. Even if they were to expand them, the process by which they decide who gets facilities is unilateral. So part of the comprehensive agreement we hope to work out is some assurances as to what the American businessman can expect when he sets up in the Soviet Union.

Q The Russians are reported to be insisting on most-favored-nation treatment. What does that mean, and why is it so important to them?

A With most countries of the world, the United States has a tariff arrangement under which all nations involved get the same tariff rates that are offered to the most-favored na-



—USN&WR Photo

Peter G. Peterson became Secretary of Commerce in February, after 13 months as a White House adviser on foreign trade. He is also U. S. chairman of the Joint U. S.-Soviet Commercial Commission, set up at Moscow in May.

tion. The few countries that are not accorded most-favored-nation treatment—and the Soviet Union has been one—pay substantially higher tariffs on some products.

The actual dollar-and-cents impact of granting this concession to the U.S.S.R. can only be estimated. With some products, such as vodka and furs, of which they export a great deal, there isn't any question but that the Soviet Union would derive economic benefits from most-favored-nation status. But, I think, the symbolic and psychological aspects of most-favored-nation treatment are at least as important to them as the economic aspects. They want to be accepted with equal status in the whole family of trading nations.

Q Mr. Secretary, has any progress been made in settlement of the Lend-Lease debt which is owed to the U. S. by Russia, and is said to be a major obstacle to a comprehensive trade agreement?

A I have to say that this remains a very difficult issue.

Q If it is not settled, can President Nixon extend credit and grant most-favored-nation treatment to the Soviet Union?

A I suppose he could, but I think it's unlikely that he would.

Q Why? Because of Congress?

A Not just because of Congress, even though Congress must approve most-favored-nation treatment. There's an issue of principle here. The President himself thinks this is important, not only to Congress but to the American people. Our view is that before we talk about extending new credits, we should talk about settling the old obligations on Lend-Lease. The issue, frankly, is not only difficult; it's very sensitive and even emotional, and I think it's important to understand why.

The Soviet leaders asked the President on his trip, and they asked me on my trip, to visit the Leningrad cemetery. Speaking of that cemetery, you will remember how the President in his Moscow TV address talked about Tanya, the Russian girl who lost all of her family and relatives in World War II, and then her own life. Russia lost 20 million or more people in that war. I think Leningrad lost as much as 40 per cent of its population. I think we can understand why, to a country which has paid so dearly in human terms, the idea of also paying back the Lend-Lease debt, plus interest, is difficult to accept.

On the other hand, I think we've made it clear to them

that what we're talking about here is only a very small part of what we supplied as part of the war. Also, our other principal World War II allies who also suffered serious losses are now paying back on their obligations. Are we to discriminate against these other allies?

Q Are the Russians willing to pay anything on the Lend-Lease debt?

A Yes. The issue now is no longer whether they will pay, because they understand that this is a prerequisite for our moving on the credit and most-favored-nation issues. The question is how much, at what rate of interest, and for how long. My own guess is that this difficult matter is going to have to be resolved at the highest levels, which means, of course, President Nixon and Mr. Brezhnev.

Q How much is owed by the Russians? **A** A figure of 500 million dollars has been reported—

A I am not at liberty to tell you the numbers under discussion at the present time, because the negotiations are under way, and for me to talk amounts would only exacerbate the matter. I do assume that the figure agreed upon will be in the hundreds of millions.

Q Is the Lend-Lease debt the major hang-up in reaching a trade agreement with the Soviet Union?

A Oh, I wouldn't say that. There has been speculation in the press that we have just a few "minor" commercial issues to iron out, and that these could be taken care of quickly if only the Lend-Lease debt and the political problems like the Vietnam war could be settled. This kind of comment tends to be made by some observers who apparently believe that commercial matters are "minor," and therefore don't require much negotiation.

I have already pointed out that we have to reach agreement on the most-favored-nation, business-facilities and credit issues. Let's add another issue: arbitration. They have relied on a purely internal Soviet arbitration system, and would like to continue with that. We would find it very hard to buy that idea. Then there is the whole issue of copyrights and patents. How are our people's intellectual properties to be protected? And then we must complete negotiations on a maritime agreement if trade is really to expand—access to ports, for example, is vital.

I would say that, by itself, any one of those half-dozen issues is a serious subject worthy of real negotiation. And I am telling you also that even if we had no political problems with the Soviets, we would still have some serious and even tough negotiations.

"WE CAN SUCCEED" ON AN ACCORD—

Q And yet you think that a comprehensive trade agreement will be reached by the end of this year—

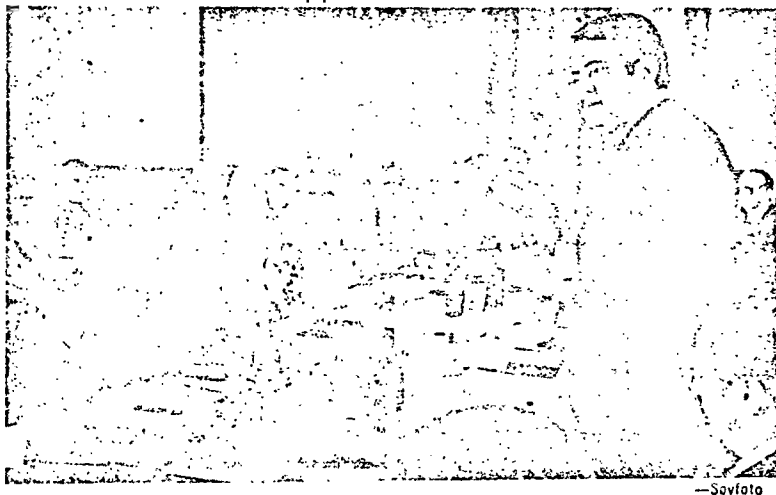
A I'm optimistic. Let me tell you why:

This was only the first meeting of this Joint Commission [on trade with Russia]. We made a fair amount of progress during the 10 days we were in Moscow. They are going to be coming over here in a few weeks, and we've got work groups on each of these issues. The Russians are coming with revised drafts, and we're preparing new drafts. It didn't surprise the Russians that we liked our ideas better than we like theirs, and it didn't surprise us that they preferred their ideas.

But I think I detect a spirit and desire to move. We can succeed if we will just give ourselves a few months and not put ourselves in the position where the absence of an instant deal will be then interpreted as failure. If we were looking for a quick cosmetic deal, we could have that now.

As far as I'm concerned, we should take the time to negotiate a comprehensive agreement—let me underline that:

(continued on next page)



In Moscow: first meeting of the Joint Commission.

"Our target is to have the terms of a trade agreement negotiated by the end of this year," says Secretary Peterson.

WHAT U. S. WANTS FROM RUSSIA

[interview continued from preceding page]

a *comprehensive* agreement—that we think we can live with for years. If we run away from some of those problems today, are the problems going to go away tomorrow? Of course not. All we will do is postpone facing the problems. In a few years what seemed like an instant success could turn out to be a piecemeal failure.

Q Are the Russians more eager to trade with us than we are with them?

A It depends upon what time frame you're talking about, and what products you're talking about.

We were very happy to sign the grain agreement, for example, and, like all good deals, this is one in which both sides benefit. The Soviets have set up a public goal of increasing meat consumption by one third by 1975. While they have vast agricultural territories, they have far less land that is suitable for certain feed grains—corn, for example—which take the right combination of hot weather and considerable rainfall. They have got a situation in which the hottest areas tend to be quite arid and the coldest areas tend to be quite moist. They don't have enough of the favorable growing conditions we have in our Midwestern States, for example.

If we look at other products, I think they have a very strong desire to import advanced American industrial products. They are very much interested in improving productivity in manufacturing.

While the Soviet Union has industrial output that surprises some people—it's about two thirds of the output of the United States—they also have a substantially larger number of people in the labor force. It may surprise you to know that with 18 per cent more people, they have a 45 per cent larger labor force.

We talk about women's liberation in this country. In this regard, it's interesting to note that 1 out of 2 in Russia's work force is a woman, compared to only 1 out of 3 in the United States.

What I am saying is that one of the main reasons Soviet industrial production is high is the Soviet Union's very large labor force. But if you look at industrial-labor productivity, their current productivity is only about 40 per cent of ours, in spite of tremendous capital investments which have exceeded our own in recent years.

There is all sorts of evidence they are putting higher priority on improving the standard of living of their people. Even in their kind of society, they have a kind of consumer-

ism. You know, people are pretty much the same everywhere: The more they have, the more they want, and the more they want, the more they get. And all this requires more productivity.

They are building now, for example, a very large truck plant. They want the latest automated techniques for making trucks efficiently—machine tools with numerical controls, automated machinery for improving assembly, and so on.

It's kind of interesting to hear the number of times they say: "We want the latest, and we want the best. And we know the United States does better than anybody in some of these manufacturing operations."

Q What other areas of trade interest the Russians?

A The other major area involves manufacturing equipment to do specific jobs. For example, the United States does quite well in drilling equipment and has sophisticated techniques for oil-and-gas exploration. We're among the world's leaders in this field. We're very good at computers, and there are certain kinds of computers that they wish to buy from us.

But let me say that one thing that we have consistently made clear to the Russians is that we are not going to bargain away this nation's security simply to see our trade statistics improve.

One thing that is simply nonnegotiable is our so-called export-control list, where, for national-security reasons, we decide what it is we want to sell and what we don't want to sell. So, we are willing to allow trade in certain kinds of computers that we are satisfied are available elsewhere anyway, and which do not have specific military applications.

But aside from the export-control list, there are a large number of products that they would like to buy from us—mostly machinery, like road-building equipment, to take another example.

WHERE THERE IS CAUSE FOR CONCERN—

Q What do the Russians hope to sell to us? What is it we want from them?

A Some people in this country are concerned about a flood of imports from the Soviet Union into the United States. I spent several hours going through their stores and looking at the prices and the products, and I'll tell you something—I'm more concerned about a drought, at least for the near future. Why do I say concerned? Because if we want a viable commercial relationship, we must remember that over any period of time what a country can buy is related to what they can sell. Thus, the biggest challenge we may face in our relationship is how to attract Soviet exports to this country.

Let's take consumer goods. Except for vodka and a few specialty and handicraft items, I don't see much there.

Let me take a specific consumer-goods example. I used to be in the camera business before coming to the Government. So I spent some time looking in detail at the prices and features of Russian cameras. I think it is fair to say that the features that they are now putting on movie cameras are those that were popular in the United States at least 10 years ago. The prices are substantially higher than the prices here. For example, I saw several very large, I would have to say, bulky cameras—and you know how Americans are going for miniaturized-type cameras—selling for from 275 to 325 rubles, which at current official exchange rates would be roughly \$330 to \$390. I would guess that those cameras just wouldn't sell at all in this country, not just because of price, because they weren't even automatic-exposure cameras—and virtually all of our cameras are automatic.

As far as machinery is concerned, if you study Soviet trade in machinery with all the Western European countries and Japan, you'll find that the Soviet Union typically im-

ports 10, 20, 30 times as much machinery from these countries as they export to them.

Now, there are some fields where I think they're justifiably proud. They do very well in power-generating and electrical-transmission equipment of various kinds. I'm sure they can sell some of that here. Some American utilities are now looking at that equipment.

But I think in many ways the most natural fit between our two countries is in the natural-resource area. We have historically spent our own energy and raw-material resources like drunken sailors, and we can now begin to feel the hole in the bottom of our pockets.

Mr. Brezhnev said something like this to me in our long and interesting visit in Crimea: "We have vast treasures of energy and raw materials that can last for generations to come, and we have decided at the highest level that we are going to make those available, that we are willing to share them with you."

"ENORMOUS SUMS WOULD BE INVOLVED"—

There are, however, some questions that have to be answered. Enormous projects and sums would be involved. I would like to see some important private-sector money involved, other than just Government-supported credits. Let me put it in perspective:

At the present time, our largest Export-Import Bank debtor country has something over a billion dollars' worth of loans outstanding. We identified two gas projects alone in the Soviet Union—just two of them—that could easily involve more than 5 billion dollars, and that's just the cost of outside-capital investment to bring the gas out—drilling equipment, pipelines and liquefaction plants. That doesn't include labor costs in Russia. On top of that, you need to have huge LNG [liquefied natural gas] tankers which cost between 80 and 100 million dollars apiece, depending on the type of vessel and the number ordered.

So these are formidable projects. But I feel that this is the area of largest promise, because we're going to need a good deal more energy in the U. S., and the Soviet Union has vast reserves. They also have large deposits of raw materials, such as copper, chromium, iron ore, bauxite and the like.

Platinum is a possible candidate for big trade. Unless somebody substitutes, we're going to need up to something like 200 million dollars a year worth of platinum by 1975 for antipollution, catalytic auto devices. Russia is one of the two major producers of platinum. Chrysler, General Motors, Ford have all told us they are interested in getting access to Russian platinum.

The Soviet Union also has enormous resources of timber.

So if I were to estimate where the big volume of exports from them to us is going to be, I would say it's in the energy and raw-material field.

Q Not long before you arrived in Moscow, Dr. Armand Hammer, of Occidental Petroleum Corporation, concluded an agreement with the Russians. You were quoted as saying that this could not be considered a commercial agreement. What did you mean by that?

A I hope I didn't say that.

Q That's the way it was reported here in the U. S.—

A The question that was asked me was: Had Occidental signed specific commercial deals? And I said it was my understanding that they had not yet signed any specific deals, but that this was really what you might call a commercial and technical co-operation agreement, in which they have agreed to look into several areas.

They have agreed to look into gas. They have agreed to look into waste treatment. They have agreed to look into fertilizers. They are looking at something else that I think is

very important, which is building an international-type trade center that would have office facilities and hotels and pavilions to meet the business-facility needs I described earlier.

I can't give you a timetable on when they're going to conclude any specific contracts. But I would like to make the distinction between a co-operation agreement, which essentially confirms the fact that the Soviet Union is interested in working with a company, and what I would call an actual commercial deal. That was the distinction I was making.

Q Can you tell us how the Occidental agreement might fit into this framework for trade that you are trying to set up?

A Surely. For example, they're talking about a potential fertilizer deal in which Occidental would supply phosphates. The Russians, in turn, would supply petrochemicals. There would be a manufacturing plant, and Occidental would get paid for its raw material and its investment in specified amounts of the finished product that came out of that plant—in this case urea and ammonia.

It is what you might call a coproduction barter arrangement, in which the transactions are in goods or in kind. Under those circumstances, as long as the company is satisfied on such issues as arbitration, patents and the like, and it doesn't need U. S. credit, we in the Government don't need to be involved.

Now, let us assume on the gas deal, which is another one they're talking about, that Occidental couldn't handle the financing through sources outside the U. S. Government. Then the U. S. Government could get involved if it becomes necessary to provide Eximbank credit and the Eximbank decides it makes sense.

RUSSIA'S "CRITICAL" NEED FOR TRUCKS—

Q What about that truck plant you mentioned earlier? What is involved in that?

A It is called the Kama River truck plant, and is one of the most immediate projects. I would think, in which our two countries would be involved. One of the critical problems in the Soviet Union is the shortage of trucks and other transportation.

We traveled extensively in Moscow. We traveled around Leningrad a fair amount. And we were down in the Crimea. In the course of that, we were on a lot of highways. One of the things that impresses an American layman is that you just don't see many large American-type tractor-trailer trucks. The trucks you do see tend to be considerably smaller and older.

The Russians apparently feel that American companies can help them a great deal with this project.

Q What companies are involved?

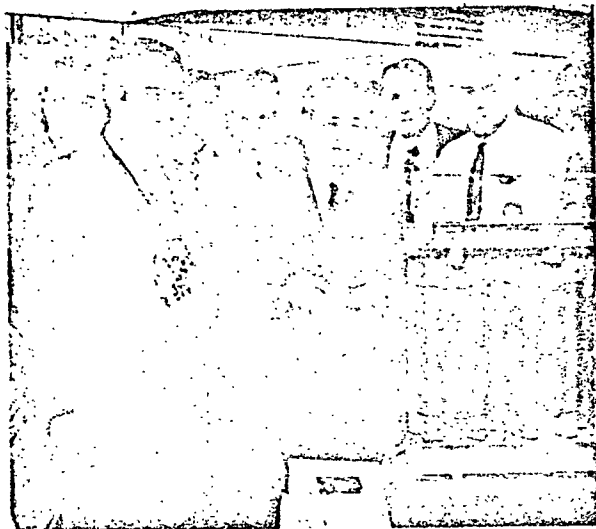
A The largest contractor there, I believe, is Swindell-Dressler, which is providing a kind of over-all engineering capability on the foundry. It is one of the few American companies that has been accredited in Russia—which means they get at least some business and living facilities and access to communication facilities, and so forth.

While the Russians were here, they visited some of the American gear plants and machine toolmakers that are identified with the Kama River project.

Q At one time, the Ford Motor Company was reported to be helping to build that foundry. Is it playing an active role now?

A No. Ford had been negotiating with the Russians, but that fell through. It didn't really have support of the U. S. Government at that time. We were asked in the course of our visit, "Why is it now you're willing to consider this project and you weren't some time ago?"

(continued on next page)



Mr. Peterson at Soviet trade show.

Russia has "a very strong desire to import advanced American industrial products," the Secretary says.

WHAT U. S. WANTS FROM RUSSIA

[interview continued from preceding page]

The answer is that progress on economics—in our view, at least—is related to progress on the political front. President Nixon's view consistently has been that he wanted to see improvement in the political environment before he was willing to move on the economic front. He believes that the major progress made at the summit on some of these political issues does usher in a new era of commercial relationships.

Q Could the plant enable Russia to make more military trucks, some of which could go to Vietnam?

A The evidence that we have is that the usage out of this truck plant will be for peaceful purposes—by and large, for agriculture where, some feel, the shortage of trucks is one factor that explains why agricultural productivity in the Soviet Union is only about 11 per cent of that in this country. Also, on this question of security, we have to take into account what their alternatives are. We aren't the only people who build good trucks, you know.

Let's talk about how all this might look to the Soviet leaders. They have followed a policy of self-sufficiency for many years. They apparently wanted an industrial base that would assure them that, under almost any conceivable security circumstance, they would be able to function. They must now feel they have that kind of base, and can now turn more to consumer goods for their people.

I say that when you are in an era of nuclear parity, as we are at the present time, increased commerce in the right political environment can actually be a weapon for peace. If the Russians divert resources into the consumption side of their economy, which has been seriously lagging, there will be less available to be put on the military side.

A case can be made for the fact that whatever stimulates Soviet consumption of meat, whatever stimulates civilian truck and automobile production and things of that sort, benefits both countries not only economically but even politically and militarily.

As an example, the Italian automobile company, Fiat, has put an enormous plant in the Soviet Union, which now produces about 6 per cent as many cars as we do in the U. S. One day I was talking to an able young man who seemed very exhilarated about something. I asked him why he was so pleased, and he said that he had just received word that he was going to get an automobile.

I said, "What kind of a new car are you going to get?" He

answered that it wasn't a new car, but a used car. Then he started talking about how this automobile was going to change his whole way of living. He was planning to take his family and his mother to Crimea on a vacation, and do all the things that we Americans just take for granted.

Let's multiply this one car by millions of people and many other products.

As long as we are confident that our security in real terms is being protected, I think more consumption in the Soviet Union can be good for both them and us.

Q How much actual trade do you expect to see by 1975 between the U. S. and Russia?

A In 1971, we did a total of about 200 million dollars both ways. That compares to about 5.5 billion dollars the Russians did with Western industrialized countries. So our share was only about 4 per cent as much as they did with other free-world countries—Western Europe, Japan, Canada, Japan and Germany, for example, each do about four times as much as we do.

Where do we go from 200 millions? I would guess that really large imports from the Soviet Union will have to wait until these raw-material deals actually start producing gas, oil, platinum, chromium—that whole list of projects I mentioned earlier. Some of those are pretty long-term—that is, they will take several years of prospecting, drilling, mining and so on before the product comes on the market.

In terms of exports from the United States to Russia, a couple of things are going to affect those. Because the Soviet Union obviously needs foreign exchange, the level of exports is going to depend to a fair degree on the amount of credit that we make available to them—Ex-Im credit. I should say, incidentally, that they have been very reliable payers of their export debt. A leading German industrialist says of the Russians: "They're very tough negotiators, but they pay on time."

I could see by 1975—particularly with these large grain deals—that our trade with Russia will have increased substantially. But I think it will still be measured in hundreds of millions of dollars, rather than billions.

Q Might it rise into billions in the 1980s?

A It depends very much on whether these large energy and raw-material deals go through. We're going to move vigorously to explore those possibilities, because we clearly have vast energy needs, and now we've got to find out which of these projects are economically and technically feasible.

Incidentally, to give you an idea of the magnitude of those projects, they're talking about pipelines 48 inches or more in diameter. And they're not only talking about permafrost conditions in Siberia, they're talking about pipelines that might run 3,000 to 4,000 miles.

A LINK TO VIETNAM? "MYTH"—

Q Is expansion of trade with the Russians dependent on their help in ending the war in Vietnam?

A From reading the newspapers, I guess this is one of those tantalizing speculations that keep journalists occupied and busy. I can tell you it has no basis in fact, that at no time in 11 days there—including a three-hour conversation with Mr. Brezhnev—did Vietnam even come up. And one of the myths that I am glad to have this opportunity to dispel is that we are somehow trading off American export credit for a solution to the Vietnam problem.

Of course, the American public and congressional reaction to expanded U. S.-Soviet trade will be related to the overall political environment. But these newspaper reports directly linking these commercial negotiations to Vietnam are simply unwarranted, patently untrue, and, if I may be frank about it, not very responsible.

[END] 7

THE SUN

BALTIMORE

U.S.-Russian shipping pact forecast soon

Balt. Sun
8-27

By RICHARD BASOCO
Maritime Editor of The Sun

Pg. R-7

Washington.

Long, drawn-out negotiations between the United States and the Soviet Union concerning a major bilateral shipping agreement will likely be concluded next month, a top Commerce Department official predicted yesterday.

"There are no major problems standing in the way," the official said. "The agreement should be signed sometime in September."

The optimistic forecast seemed to go considerably further than Peor G. Peterson, the Secretary of Commerce and the government's chief negotiator with the Russians, has gone thus far in his public remarks. Mr. Peterson has expressed hope that trade and shipping agreements can be reached by the end of the year while suggesting several problems—including payment by the Russians of their lend-lease debt from World War II—are still unresolved.

Would clear grain

Settlement of the shipping agreement would clear the way for movement of millions of dollars worth of grain to the Soviet Union.

In the past 10 days, a furor was created in some sectors of maritime labor by reports that three Soviet ships were scheduled to begin loading soybeans in Chicago last week before any bilateral shipping arrangements were finally settled.

Maritime labor had abandoned its opposition to grain trade with the Russians under assurances from the government that American ships would participate in the movements throughout the years ahead.

Joseph Curran, president the National Maritime Union, angrily charged that the government was backing out of the agreement by letting the Soviet ships carry the soybean cargo while American ships remain idle.

"Figment of imagination"

But Andrew E. Gibson, assistant secretary of commerce for international and domestic business, a key figure in the Soviet negotiations, at the weekend termed the reported preparations to load Soviet ships at this time "a figment of somebody's imagination."

The ships did not arrive in Chicago last Thursday as Edward Cook, president of a Memphis, Tenn., grain company, had said they would 10 days ago, and Mr. Gibson indicated they would not until the shipping agreement is signed.

Mr. Gibson flatly refused to discuss the soybean deal or the bilateral shipping negotiations, but said that the dispute had been prompted by the fact that Mr. Cook, while anxious to begin moving the 100,000 tons of soybeans purchased by the Russians, "wasn't fully aware of the problems."

He added cryptically, "He got conned into something that won't happen again." He declined to elaborate.

It is generally believed that the shipping agreement will provide that about one-third of the grain purchases will be carried by Soviet ships with another third moving in American vessels with some form of support by the government. The remainder would be carried by third flag ships.

NEWSWEEK

September 4, 1972

TRADE:

Comrade Expert

The long-accepted scenario for the development of U.S.-Soviet trade calls for the U.S. to exchange its broad-based technological expertise for Russia's ample natural resources of gas, copper and timber—a classic example of commerce between developed and underdeveloped countries. As it happens, however, the Soviet Union is anything but a have-not nation; and as the two countries sit down to discuss practical business deals,

it is becoming readily apparent that the Russians often have the technological superiority.

Last week, for instance, it was announced that Kaiser Aluminum & Chemical Corp., one of the three biggest U.S. aluminum refiners, had signed a license agreement to use a Russian casting process that reduces the need to trim aluminum ingots before they are rolled into sheets. Reynolds Metals later announced that it had concluded a similar arrangement with the Russians last December, and two smaller U.S. companies said they had bought Soviet licenses to use a system for extracting magnesium and a cooling system for blast furnaces.

Commerce Department officials in Washington say these deals could be just the beginning. Russia has advanced techniques in several areas that could be useful to U.S. industry. Among them: metal refining and manufacturing; heavy electrical transmission and hydroelectric generation; gas turbine power plants and forging and pressing—not to mention hydrofoil boats of the type that Communist Party chief Leonid Brezhnev gave President Nixon on his trip to Russia last May. Steven Lazarus, Deputy Assistant Secretary of Commerce, is not at all surprised by the two-way technological trading. "In view of the heavy emphasis the Soviets have placed on industrial research and development," he says, "there are simply bound to be many areas in which they have achieved breakthroughs. You just can't make such investments and not have discoveries."

As I See It

An Interview with John P. Hardt

The Economic Story Behind the Nixon-Brezhnev Détente

Peter G. Peterson, President Nixon's energetic Secretary of Commerce, has just returned from the Soviet Union, his hands apparently empty as far as a major trade pact is concerned. Is Russian trade merely the stuff of headlines, destined to be forgotten tomorrow? For perspective on this question, Forbes looked for a man who would be well-informed and yet detached. Forbes' James Flanigan found him in Dr. John P. Hardt, the U.S. Congress' senior specialist on the Soviet economy.

Why now? Why has Russia dropped its old economic aloofness?

HARDT: We are dealing with a leadership that is still very conservative, oriented to and rooted in the past. And the past means keeping foreigners out. The past means the Iron Curtain and the control system and self-sufficiency. We're dealing with people like Leonid Brezhnev who are Stalinist in form and training, but are apparently acting in a way that Stalin himself never would have acted. The answer in a general way must be that, as a professional politician, Brezhnev senses a need and, regardless of his inclinations, he's just going to have to accommodate these changes. And I think this is why technological change and consumer interest have come to the fore.

What brought about the change?

HARDT: They are dedicated to meeting their own felt needs. They have given priority over many years to the military sector, and low priority to changing technology in their civilian areas. Nikita Khrushchev clearly identified this. With the Seven-Year Plan in 1959 they began belatedly their shift to the use of modern materials in industry, from coal to petroleum and natural gas, from iron and steel to high-test metals. But en route, they accepted the requirements of strategic weapons expansion, after the Cuban missile crisis in particular. As a result, their modernization programs were cut back, and in a country with limited resources and enormous military requirements this was a costly decade of deferment.

The Cuban missile crisis pushed the Russians into rearmament?

HARDT: Yes. I think in historical perspective we Sovietologists are agreed

that it was the [for them] political disaster of the Cuban confrontation that led Khrushchev and the party to decide in late 1962 to redirect the resources to a major strategic weapons buildup. That took eight to ten years to come to fruition... and here we are. Now the question is whether or not they're going to meet their civilian plans or go on to military superiority again.

Now, look at the trade prospects for the Soviets, not only with the U.S. but with all countries.

Energy—petroleum and natural gas—is at the core of each of these programs. If they're to be successful in the current ninth Five-Year Plan and the tenth Five-Year Plan, they're just going to have to develop the West Siberian fields. Very rapidly—more rapidly than they have in the past. They're going to have to develop the means for transportation and transmission of that resource, which is no small problem in terms of the location of West Siberia. Also they must build the industries to use the by-products, the petrochemical plant and particularly the refinery capacity. Now the only way I see this being done according to their imposed schedule, which I think is a realistic one, is by military-type priorities.

But according to statistics we see, the Soviet Union allocates only 8% of its gross national product to defense. The U.S. allocates some 7%, so what is the difference in priorities?

HARDT: In terms of the proportion of goods and services, those statistics are quite accurate. But in terms of the opportunity costs and the burden on resources, they are understated. We have a larger supply of resources, facilities and skilled people, so the trade-offs in our society are not so harsh. But in the Soviet Union, we're talking about high-test metals that

can be used either to build petroleum refineries or to develop a strategic missile system. Developing the energy area demands resources of engineers, construction facilities, high-quality metals and so forth. These things may not be highly valued in terms of the Soviet price system, but they are certainly very scarce.

They talk of developing all their new industry out in Siberia, the petrochemicals and aluminum smelting and so on. Is this merely talk?

HARDT: Again, in 1959, they debated whether the increments for electric power should come from expanded steam stations in European Russia or from water power development in the East Siberian region around Lake Baikal—Irkutsk, Bratsk and Krasnoyarsk. The judgment was made that they would go for the heavy investment. You know the Bratsk and Krasnoyarsk stations each individually are about three times Grand Coulee. And they are very fine facilities, have an even flow throughout the year.

There is only one hitch. They don't have sufficient power consumers. They don't have any load. Now they planned back in 1959 to build the load at the same time, but because of military needs they did not. I notice in the current Five-Year Plan that they are building many of the plants scheduled to supply the load now. But this is the Seventies, not the Sixties. So there has been excess power in Siberia for a decade. Now that's a problem very much related to the current West Siberian petroleum development. Sure, they can develop petrochemical industries in West Siberia, but it makes a great deal more sense to do it in this decade than in the next or the following decade.

So this raises the question of the summit discussion. In other words, is the backdrop to this eagerness for trade and their concern about technology a concern that emanates from a policy decision to reorder priorities? That remains a question, at least in the public arena.

Certainly we've had false signals and hopes in the past. But from their problems, the colossal waste of power in Siberia, the need for petroleum, the need for productivity in their economy, surely the Russians will have to reorder their priorities now. Surely they will have to do something for the people.



Sovietologist Hardt

HARDT: They do seem serious in their approach to increasing meat production. They have entered into a three-year agreement to import U.S. feed grain, because they must not only increase meat production for one year but build up the number and quality of the herds. [This differs, of course, from their purchase of U.S. wheat, which is in response to a crisis and, like their similar purchase in 1963, is probably a one-shot affair.] But on meat they have an awful long way to go. Just how long was brought home to me when I noticed that the meat consumption goals in the current plan—which are quite ambitious—would not get them above the present levels of East European meat consumption per capita. And remember the issue of meat, its price and availability, was the match that lit the recent Polish riots that toppled the Gomulka government. The Soviet Union had to supply hard currency to buy meat in the West to cool off that situation.

But the common understanding in the West is that the East European economies are advancing faster than

the Russian economy itself. Just who is a drag on whom?

HARDT: The cost of retaining their Eastern European system is a burden of increasing concern to the Soviets. In petroleum, for example, the Soviet Union exported 47 million tons to Eastern Europe last year, whereas to the whole non-Communist world they exported 58 million tons. Obviously they can't, but if they were to say "no more oil" as of tomorrow to East Germany, Poland, Czechoslovakia and Hungary they would be able to sell 50 million metric tons more petroleum in the world market and gain hard currency. Now, they also use their hard currency to buy grain to supply the East European countries. Much of their grain imports from Canada go directly to Eastern Europe. The Russians would like to reduce this economic drain. In fact, they have suggested recently to the East Europeans that they look elsewhere for raw materials in the 1980s. In terms of petroleum, this would obviously mean the Arab countries.

On the other hand, the East Europeans have to supply many of the better and more marketable products of their machine-building industry to Russia, and thereby deprive themselves of access to West European markets, in which they are very interested. So neither side is happy with this mutual exploitation.

In other words, it's not a case of the Soviet Union forcibly tying these countries to itself? What about Czechoslovakia?

HARDT: I'm of the view that the Soviets do not feel the Czech invasion was a success. They did it at great political cost. For security reasons, the Soviet Union wants to keep these countries tied as allies, but economically the cost has gone up substantially and the Russians are quite concerned about it. Now the Eastern European nations have been moving toward more economic relationships with Western Europe. I think it's reasonable to assume that whatever the Soviets do provides the parameters within which the East Europeans can operate. If the Russians develop joint ventures, industrial cooperation, tourism and so forth, then the East Europeans can go almost as far. To the extent that we develop an increasing economic relationship with the Russians, we can expect to find more opportunities for business with Eastern Europe.

Where does the U.S. come into the picture? Why not Japan and Western Europe? Why all the hospitality to President Nixon?

HARDT: There are several reasons. One, there are areas in which the Americans are clearly ahead. In the area of management and computers, we still do very well. In petroleum technique, too, particularly our Alaskan North Slope technology. In spite of centuries of Russian experience with permafrost it is apparent they need help in building on it. Secondly, the old leadership in Russia still thinks of what is American as being the best. The younger people are recognizing what we are concerned about, namely that in a lot of technological areas the U.S. is no longer the best. But we can for some time ride on our reputation with the older leaders.

The third reason, I suspect, is political. They may feel they have something to gain from increasing their trade relations with the U.S. Either from an improvement in the climate in the U.S. toward the Soviet Union or because they are concerned over our dealing with China.

The difficulties that have to be negotiated, as you say, boggle the mind. There are problems that just do not exist in U.S. dealings with other countries—problems such as living in the Soviet economy, supplying the job site and the problem, as you put it, of "a one-to-one relationship between an American engineer and a member of the Soviet police." Is Russia good business at all? Do the difficulties exceed the attractions?

HARDT: Certainly we're having more difficulty and costs in dealing with many other countries—talking of petroleum, Iraq and Libya come to mind. The difficulties do suggest that there will have to be a close relationship between private enterprise and the U.S. Government. And the rate of return because of uncertainty of both price and tenure will have to be fairly high, otherwise it won't pay off.

The real danger to our side is that we must be careful about negotiations. We tend to get an agreement "in principle" and then assume that all has been settled except the details. That is not the way they work. There is going to be a lot of hard bargaining and we'll have to keep up our attention levels for a long time. Any short-term successes will only be steps in a long series of negotiations. ■

The Journal of Commerce AUG 31 1972

AND COMMERCIAL

To Visit Chicago Show

Soviet Mission Due In US This Weekend

By RICHARD LAWRENCE

Journal of Commerce Staff

WASHINGTON, Aug. 30 —

An unprecedented 110-member Soviet trade mission is due to arrive this weekend in the United States, to begin wide-ranging talks with U.S. machinery manufacturers.

Headed by Soviet Machine Tool Minister A. I. Kostousov, the team, including dozens of specialists, will spend much of its expected 3-week visit at the biennial machine tool show in Chicago, which gets under way Tuesday.

An estimated 700 U.S. machinery and equipment companies will be showing their wares at the show.

The mission includes G. G. Ignatiev, a deputy chairman of Stankoinport, the Soviet agency specifically charged with the import of machine tools. Mr. Ignatiev, it is understood, was due to arrive in New York today, as chief of a smaller "advance" trade group.

Following his Chicago visit, Minister Kostousov may come to Washington, to talk with high government officials. But plans for this have yet been firmed up, sources here say.

Sales Rise Indicated

The mission, by far the largest Soviet trade team sent to the U.S., is regarded as another signal that the United States probably can look to a relatively sharp increase in its sales to the U.S.S.R.

Mr. Kostousov, Mr. Ignatiev and their aides will get their best survey to date of what American machine producers could make available to the Soviet Union.

Discussions are expected to center on the multibillion dollar Kama River truck manufacturing complex, under construction at a point about 800 miles east of Moscow. But the Soviets also are reported set to line up purchases for a string of tableware factories, besides explore possible deals of plant and equipment in other manufacturing sectors.

The U.S.S.R. is considered as a potentially major buyer of the kind of machinery and equipment used for the production of consumer goods. Some durables, such as automatic washers, dryers and freezers, the U.S. Commerce Department has reported, do not seem to be made at all in the Soviet Union. The supply of good quality refrigerators and furniture reportedly runs behind demand.

The Soviets, aware that their labor productivity is less than half that of the U.S. in industry and only about 10 per cent of the American level in farming, are regarded as likely to spend heavily, too, on time-saving equipment.

Starting last year, U.S. machinery sales to the U.S.S.R. began to pick up. Averaging about \$36 million the two previous years, 1971 exports rose to \$54 million. The biggest single rise came in gear cutting machines, with shipments reaching \$12 million.

Another good gain was scored in materials handling equipment, as exports topped \$18 million, about \$10 million more than in 1970.

Meanwhile, the Commerce Department, slowly relaxing its controls on exports to the U.S.S.R., has over the last 12 months approved more than \$200 million in machinery shipments for the manufac-

ture of trucks, buses and cars, in existing Soviet plants, besides about \$1.5 billion in machinery and equipment for the projected Kama River project.

Actual U.S. exports to the Soviet Union in the first seven months of this year reached \$186 million, including both farm and industrial goods. It was more than double the export figure of a year earlier.

But that is only the start, officials here say. Once the U.S. and the Soviet Union conclude a comprehensive trade pact — it is expected to happen this fall — and the U.S. begins moving its recent big grains sales to the Soviets, American exports are likely to spurt further.

Nixon Lifts Hide Export Controls

Twenty-Three Month Renewal of Export Control Law Signed

Journal of Commerce Staff

WASHINGTON, Aug. 30 — President Nixon has signed a 23-month renewal of the export control law, through June 30, 1974, and at the same time dropped controls on the export of cattle hides.

Under the action, the administration also will be under greater pressure to relax curbs on "nonstrategic" goods. The new law requires the commerce secretary to justify early next year to Congress the export controls the U.S., but not other nations, places on over 300 products.

The new act further establishes, for the first time, a White House Council on International Economic Policy (CIEP), providing \$1.4 million for its fiscal 1973 operations. The council has been operating only by virtue of executive decree since early 1971.

Congress, however, intends to take another look at the top-level inter-agency policy

group next year, before voting further authorizations for it.

President Nixon is the CIEP chairman, and the secretary of state vice-chairman. The council also includes the secretaries of defense, treasury, commerce and labor, among other officials.

'Basic Working Authority'

The export control law provides the President with his basic working authority to prevent "strategic" exports from entering unfriendly hands and to restrict shipments of goods in short domestic supply.

While the bill was before Congress, the Commerce Department announced that it would curtail cattle hides exports, because "abnormally" high foreign demand was forcing up U.S. prices. Commerce, under shoe industry pressure, planned to hold hide exports this year to 1971 levels.

But cattle industry groups persuaded Congress to vote a provision in effect rescinding the hides controls. The new law requires that the agriculture secretary approve any future "short supply" controls on farm products, including hides, skins, fats and oils.

In any approval, he has to determine that domestic demand exceeds domestic supply, unless the controls are for reasons of national security or broad foreign policy purposes.

'Highly Unlikely'

Cattle hide supplies well exceed U.S. needs, with much of the production going for export. It is viewed as highly unlikely, for legal and political reasons, that the President now would reimpose cattle hides controls under the new law.

The new language also will make it much more difficult for the government to impose future "short supply" curbs on any farm commodity.

The Congress further ordered in the new act that the Commerce Department set up a series of advisory groups with industry experts on a commodity-by-commodity basis.

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